

VZCZCXYZ0003
OO RUEHWEB

DE RUEHPG #1350/01 3031226
ZNY CCCCC ZZH
O 301226Z OCT 06
FM AMEMBASSY PRAGUE
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8161
INFO RUEKJCS/SECDEF WASHDC PRIORITY
RUEHNO/USMISSION USNATO PRIORITY 1785
RHEHNSC/NSC WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEFDIA/DIA WASHINGTON DC PRIORITY
RUEKJCS/JOINT STAFF WASHDC PRIORITY

C O N F I D E N T I A L PRAGUE 001350

SIPDIS

NOFORN
SIPDIS

EUR/NCE FOR FICHTE, PM FOR DOWLEY, OSD FOR SADOWSKA

E.O. 12958: DECL: 10/29/2016
TAGS: [PGOV](#) [PREL](#) [EZ](#) [MARR](#) [MASS](#) [MCAP](#)
SUBJECT: U.S. COMPANY BUYS MANUFACTURER OF VERA-E PASSIVE
SURVEILLANCE SYSTEM

Classified By: Political Counselor Michael Dodman
for reasons 1.4 (b) and (d)

¶1. (U) This cable contains sensitive business information.
Please protect accordingly.

¶2. (C/NF) Summary: Representatives of Rannoch Corporation, a Virginia-based company specializing in air traffic control (ATC) technology, purchased Czech company ERA A.S. on October 26. The new owners plan to quadruple production capacity for the VERA-E in the first year, and state that this new capacity would be aimed at supplying only the U.S., NATO allies, and "responsible countries" that are acceptable to the USG. Rannoch hopes to hold on to ERA for no longer than two to three years. Rannoch executives say they place a high priority on USG relations, thus avoiding factors that could make prospective U.S. purchasers of the company less likely to buy them out. End summary.

¶3. (SBU) Representatives of Rannoch Corporation, a Virginia-based company specializing in air traffic control (ATC) technology, met with members of Embassy Prague on October 25 to provide details of their planned takeover of ERA, the manufacturer of the VERA passive surveillance system. (Note: ERA confirmed on October 27 that the purchase had been successfully concluded. End note). Rannoch's President David A. Ellison and Chief Financial Officer John D. Young, described ERA's civilian air traffic control equipment as a world leader, and said that Rannoch's acquisition of ERA, its main competitor, would mean increased success in civilian airport air traffic control tenders.

¶4. (SBU) Turning to military systems, Ellison also expressed Rannoch's interest in expanding production of the VERA, because of the increased margins on military technology compared to the highly competitive civilian market. Ellison said ERA is currently only able to produce four VERA systems per year. Based on Rannoch's previous marketing efforts in the U.S., Rannoch executives foresee potential for further U.S. and allied VERA purchases, possibly for non-traditional applications such as military testing and homeland security. However, current orders from Pakistan mean that ERA's order books would be full for some time. Ellison said Rannoch plans to initiate a shift-based system, initially doubling production capacity to four systems every six months before increasing capacity again within a year to allow ERA to produce 16 VERA systems per year. Rannoch is currently also looking at purchasing the Czech Ministry of Defense's share

of the intellectual property rights in the VERA system.

15. (SBU) Both executives said that Rannoch would like to avoid dealings with shady arms exporters and would thus immediately undertake a review of ERA's business partners in the area of international marketing. As a part of this strategy, Rannoch intended to buy out Czech exporter Omnipol's holding in ERA.

16. (SBU) Ellison also claimed that Rannoch would want to ensure good relations with the U.S. Government. He volunteered to send the Embassy a list of the countries currently being considered by ERA as potential buyers of the VERA system. Ellison noted that ERA seemed to have several deals in the works considering VERA sales. In response to a question from Ellison, Poloff explained that the governments generally cannot share details of any classified discussions that may take place between governments about licensing arms exports (Note: It is an open secret in Prague that U.S. security concerns are the reason the Czech Government has refused to license several VERA sales. End note.) However, Poloff also warned that several of the Czech companies marketing VERA around the world had failed to get an export license from the Czech authorities due to Czech foreign policy concerns. Ellison and Young both were at pains to point out that any poor relations with the United States Government could hurt them financially: Rannoch sees its investment as only a short to medium-term involvement with ERA, ideally lasting about two years. They hope that one of the large U.S. defense firms will want to buy ERA after Rannoch demonstrates the real worth of the company. They said ERA would be less appealing to a buyer if it came with the baggage of strained relations with Washington. However, Ellison did assert that VERA was not unique, and mentioned that one of his Internet searches had turned up a Chinese

claim to have developed a similar system.

COMMENT

17. (C/NF) It appears Rannoch's purchase of ERA could lead to a paradigm shift in the way the USG prevents the VERA system from falling into the wrong hands. If Rannoch turns out to be genuinely committed to prioritizing USG relations over questionable sales, the United States may have the option to prevent future problems even before the company begins talking to the wrong prospective customers. Because Rannoch is incorporated in the U.S., there is also the possibility of the VERA now falling fully within the jurisdiction of U.S. defense export licensing controls. From a bilateral relations perspective such an outcome would be very favorable. If Rannoch only applied for a Czech export license after receiving a U.S. license, there would no longer be any U.S. requests for license refusals in Prague, and the U.S. Government might no longer be seen as a barrier to the success of a prominent Czech company. Such an outcome would also reduce political pressure on pro-U.S. officials in the Czech government who have often stood in the way of attempts to send VERA to inappropriate destination countries.
GRABER